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Soviet Union's hidden defense costs

Boston

TWO weeks before the CIA and the Defense Intelligence Agency (DIA) went public with their annual difference of opinion over the rate of Soviet military growth, I sat in on a conference at which analysts from both explained their methods.

Their differences over the growth in total cost of Soviet weapons systems ranged from more than twofold to fourfold. This was so sizable as to make it appear that one agency must be getting its information from the Moscow version of a Pentagon whistle-blower while the other was not: Hex wrenches at 100 rubles vs. their Searsky & Roebuck list price of 8 kopeks.

But, in fact, both intelligence shops are getting the bulk of their raw data from analyzing satellite photos. The technique is simple in concept, more complicated in practice. It involves measuring factory floor area, counting crates that emerge, counting materiel at rail sidings and on docks, watching armored units, airbases, and missile emplacements in the field.

The bottom line, a DIA analyst explained, is that the Pentagon and CIA number-crunchers agree on the prices per unit of Soviet weapons. They disagree only on quantities acquired. But the scale of their difference is nonetheless striking.

In recent years this discrepancy has attracted a lot of media and congressional scrutiny. Unfortunately, the brouhaha diverts attention from some hidden, but important, side-effect costs of Soviet defense.

Franklyn Holzman, a professor of economics at Tufts University and a fellow at Harvard's Russian Research Center, points out two major hidden costs: (1) The huge burden of farm subsidies the Kremlin bears because, for strategic reasons, it produces food uneconomically rather than import more. (2) Economically irrational overtrading with East-bloc client states.

The United States also indulges in some policies based on a triumph of strategic caution over economic logic. Its merchant-marine subsidies, for example. But Soviet strategic costs of this type are far larger than American. Professor Holzman estimates that about one-third of USSR gross investment and one-half of its labor investment go into the farm sector. He cites a Wharton study that concluded that, had the Soviets in 1980 invested more in oil exports and less in agriculture, and then used oil revenues to import grain, they would have gained a sixfold cost advantage.

With the subsequent decline in world oil prices, that advantage has declined.

But the Kremlin has sunk increasing amounts of capital over six decades into an industry that is uneconomic in almost any terms except survival in case of major war.

The second example of a major hidden cost involves overtrading with Eastern Europe. Both partners lose from such overconcentration. "It's like going into a country store instead of a supermarket" to do all your buying, says Holzman. In the name of keeping the military alliance tied together, half of Soviet trade is with this small group of nations.

The Kremlin loses four ways, according to the Tufts economist: (1) Its industries have to turn out products they are not well-equipped to make economically. (2) Both sides buy inferior products from each other. (3) Normal trade would be about one-sixth of total Soviet trade, not one-half. The difference results in major budget expenditures at above-market prices. Moscow trading companies should be importing about $12 billion rather than just $6 billion in better bargains from the West. (4) Moscow is unnecessarily subsidizing raw materials exports to COMECON partners by selling them below market prices, for a loss of between $10 billion and $20 billion yearly.

The irony of this situation stands out starkly. One US farmer can feed himself and 49 other people. One Soviet farmer can feed himself and four others. The difference in productivity results from many factors: climate, capitalist market incentives, efficiency of equipment, research. But the end result is irrational. American farmers by the thousands are protesting to Washington, in part because their export market has withered. At the same time, Moscow is wasting resources trying to reduce its agricultural imports.

The only way to make sense of this is to classify Soviet agriculture as *in part a quasi-defense industry*, kept artificially large in case of emergency. Ditto, excess East European trade.

President Reagan and Secretary of State George Shultz say they want to talk to the Soviets in broadest strategic terms about arms control. It seems clear that the less-noticed US-USSR trade talks ought to be conducted in just as broad terms.

Politburo leaders may not be in the habit of thinking about the hidden side-effects of their empire defense policies. Getting this kind of cost analysis into the bargaining process might provide some extra incentive for movement.

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